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Alberta ECONOMIC OUTLOOK

AUGUST 1973

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ALBERTA – PROVINCIAL AFFAIRS

The soon to be released "Executive Report – 1973 ... a mid-year economic forecast" reports that the outlook for the Alberta economy to the end of 1974 is very favourable as a result of expansion of production, resource development and employment growth. The following points highlight the outlook for the Alberta economy to the end of 1974:

- The rate of price increases in Alberta in 1973 should be close to 5 per cent followed by a slight rise to 5.5 per cent in 1974;
- Both the labour force and total employed should increase by close to 4 per cent in 1973 and 1974, with no appreciable decline in the unemployment rate;
- A 13 per cent increase in the value of manufacturers' shipments to $2.7 billion can be expected in 1973, with a similar increase forecast for 1974 to close to $3 billion;
- Total annual investment for the manufacturing industry in Alberta is forecast to increase by 60 per cent in 1973 to $380 million. A further 20 per cent increase is anticipated in 1974;
- Total capital and repair expenditures in the utility sector in Alberta are anticipated to increase by nearly 6 per cent to $537 million, reflecting the continuing strong demand for electric power;
- New construction expenditures in Alberta should exceed those of 1972 by almost 9 per cent to $1,792 million, Urban housing starts, however, will decline slightly. Expenditures on residential construction are expected to decline slightly in 1974;
- Expectations are for a 13 per cent increase in crude oil production in 1973 and 1974, with an increase of almost 15 per cent forecast for natural gas production;
- Total raw coal production in Alberta will increase by close to 15 per cent in 1973, with a similar increase anticipated in 1974;
- Prospects for 1973 indicate a 15 per cent increase in farm cash receipts due to continued high prices for livestock and grains;
- Production in the wood products sector is expected to register a 20 per cent increase in 1973 with a further 18 per cent increase anticipated in 1974; and
- Travel expenditures are expected to increase by almost 10 per cent in both 1973 and 1974 to nearly $400 million in 1974.

It now appears that the drop in general lumber prices in the United States, as predicted a few months ago, is now taking place. The U.S. wholesale price index (1967=100) for softwood lumber reached a peak of 228 in May, 1973, exactly double the level recorded in January of 1971. The present wholesale price level is 220 and expected to continue falling for at least the next six months.

Alberta lumber prices have also dropped some 10 to 20 per cent in the last few weeks in response to the lower American prices plus increased competition from greater American exports. Many buyers in Alberta and B.C. are reluctant to buy more than four weeks in advance at prevailing prices. The general concensus of opinion is that the market will drop again when rail shipments in Canada are back to normal.

ALBERTA – INTERNATIONAL AFFAIRS

The international monetary system, as conceived at Bretton Woods, New Hampshire, in 1944, has virtually ceased to exist.

This situation resulted from a general loss of confidence in the American dollar. The reasons for the loss of confidence were many, but among the most important were:

- The United States trade position had deteriorated dramatically since the mid-1960's, dropping from a surplus of $7.1 billion in 1964 to a deficit of almost $6.5 billion last year, a net loss of $13.6 billion;

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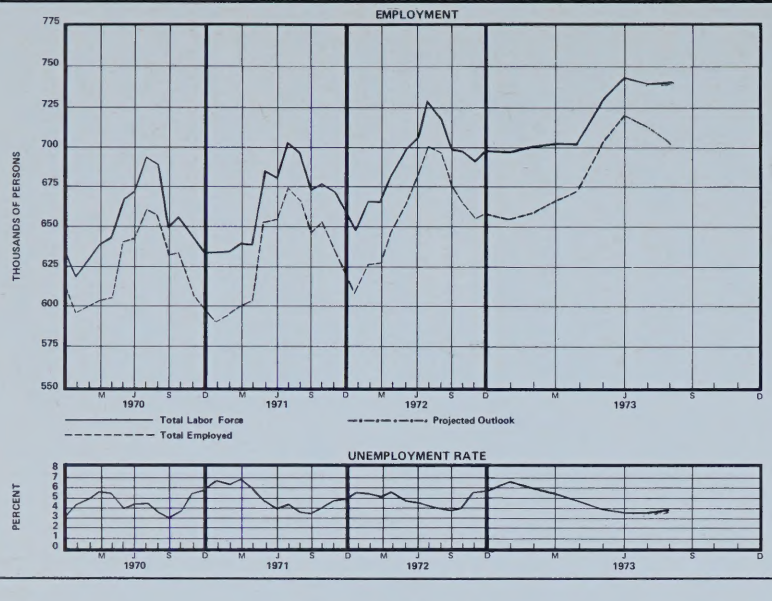
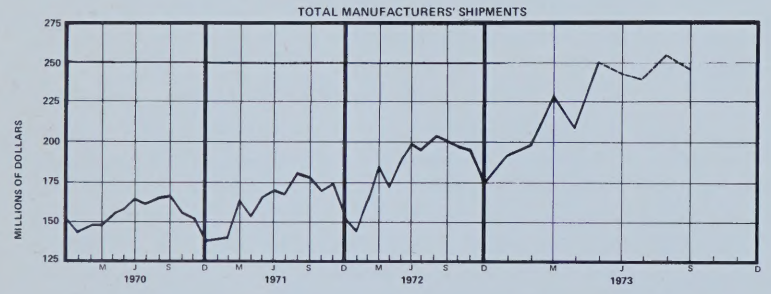


EMPLOYMENT

July's unemployment rate increased slightly to 3.5 per cent due to a drop of 2,000 in total employed from June to 714,000 and no change in the labour force between the two months remaining at 740,000. After 10 consecutive months of high female participation in the labour force, it declined unexpectedly, particularly in the over-25 age group. For August, the labour force remained unchanged at 740,000 but total employed declined to 711,000, resulting in 29,000 unemployed. These seasonal declines follow the historical peak in participation rates, labour force and total employed experienced in July. Prospects for September indicate seasonal declines in the labour force and total employed.

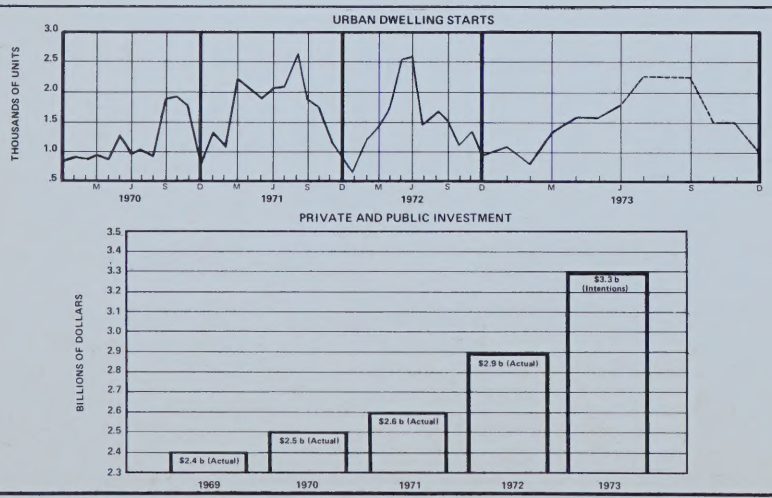
RETAIL TRADE

Retail trade in Alberta to the end of May, 1973, totalled close to $1,182 million, an increase of over 12 per cent from the same period in 1972. As well, May 1973's total of $261 million was 12 per cent above May, 1972. Totals for June, July and August are expected to reach $280 million, $258 million and $254 million, respectively. Prospects for September indicate a seasonal gain in sales to near $264 million, followed by a further increase in October.



MANUFACTURERS' SHIPMENTS

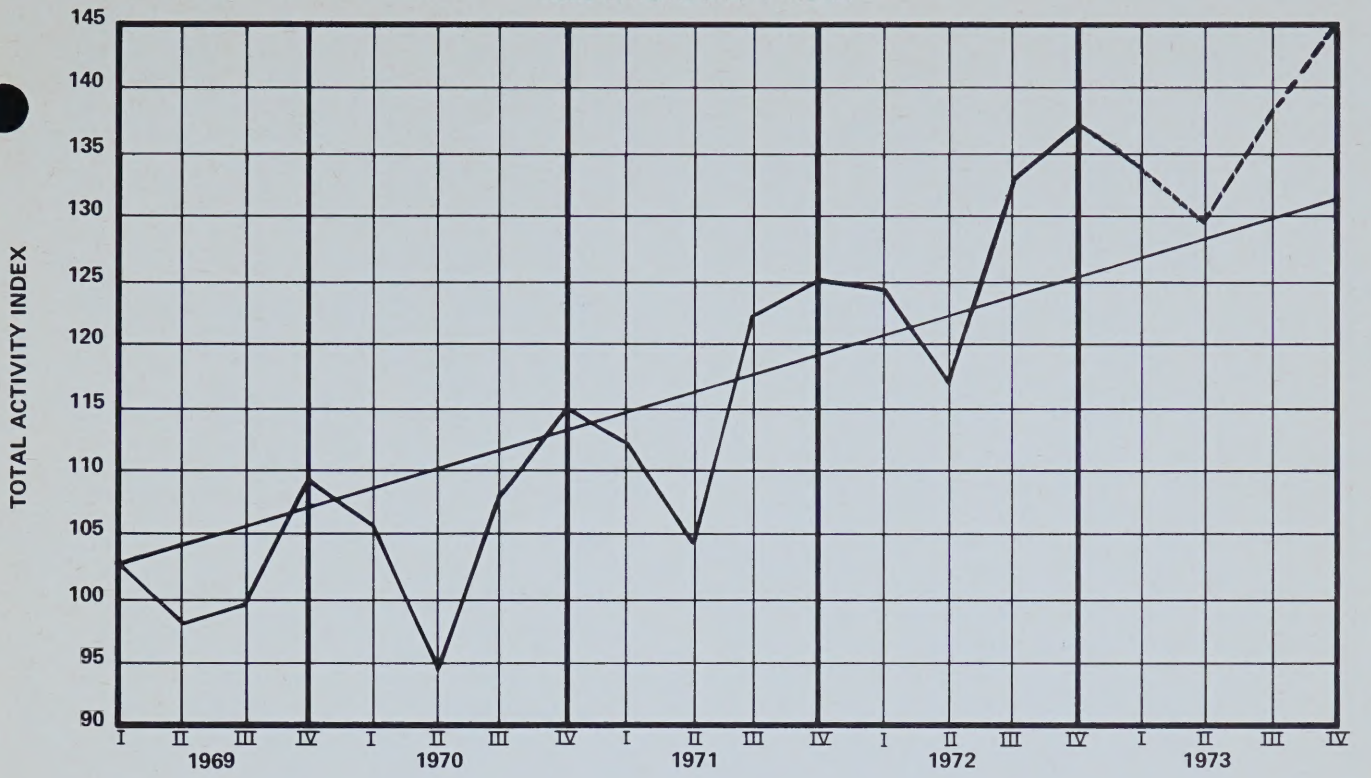
Most of the increase in shipments to the end of May, 1973, is probably due to substantial price increases in the food processing industry. For example, total shipments in May totalled $250 million, 24 per cent above May, 1972, resulting in year to date total of close to 22 per cent. Revised forecasts reported earlier for June to August will likely be on the low side due to recent price pressures. September's total should reach $247 million, an increase of 23 per cent above last September, followed by a slight seasonal decline in October.



HOUSING AND INVESTMENT

Urban dwelling starts to the end of June, 1973, at 8,239, were 19 per cent below the same six months of 1972. June's total declined by over 700 units to 1,849 from June, 1972, a decrease of 28 per cent. Given the decreases to date, forecasts of 4,700 and 4,000 for the third and fourth quarters of 1973 are probably high. The annual mid-year revision to capital and repair expenditures indicated that earlier intentions for 1973 have been revised upwards by 1 percentage point to over $3.3 million, 13 per cent above 1972's actual expenditures. Most of the increase was accounted for by additional expenditures in the manufacturing industry.

ALBERTA'S ACTIVITY INDEX



PERTINENT ECONOMIC INDICATORS FOR THE PROVINCE OF ALBERTA

INDICATOR	Percentage Change in Volume Activity Total Year 1971 - 1970	Total Year 1972 - 1971	Year to Date 1973 - 1972
MANUFACTURING			
Slaughtered Meat Production	+13.6	+ 3.3	- .7 (Jan. – June)
Slaughtered Meat Exported	+12.6	+ 5.3	+ 1.1 (Jan. – June)
Refinery Production (Est'd)	+10.7	+21.4	+ 5.0 (Jan. – June)
Cement Production	+ 4.5	+ 3.5	+14.0 (Jan. – June)
MINING			
Oil Production	+ 9.4	+20.8	+26.0 (Jan. – May)
Gas Production	+10.1	+16.8	+ 8.0 (Jan. – May)
Footage Drilled	+ 1.8	+21.9	N/C (Jan. – May)
Number of Wells Drilled	+ 9.6	+13.1	+35.3 (Jan. – May)
Coal Production	+31.7	+14.1	- 4.7 (Jan. – May)
CONSTRUCTION			
Urban Dwelling Starts	+54.0	- 15.4	- 18.7 (Jan. – June)
Rigid Insulation Board Shipments to Alberta	+15.6	+ 5.9	- 10.0 (Jan. – June)
Metal Shapes Shipments (Est'd)	- 4.0	+ 7.6	+35.0 (Jan. – June)
AGRICULTURE			
Grain Shipments	+ 8.8	- 2.9	- 12.9 (Jan. – June)
Livestock Marketed	+15.1	- 1.6	- 5.1 (Jan. – June)
Farm Cash Receipts	+ 9.8	+14.0	+29.4 (Jan. – June)
FORESTRY			
Lumber Production	+ 6.1	+16.0	+38.4 (Jan. – June)
Lumber Sales	+34.7	+ 5.7	+34.1 (Jan. – June)
Lumber Exports	+26.5	+24.7	+31.6 (Jan. – June)
Pulpwood Production	- 34.9	+47.8	+30.1 (Jan. – June)

UNEMPLOYMENT RATE (Unadjusted)	JULY 1973	JUNE 1973	JULY 1972	JUNE 1972
Canada	4.8	5.2	5.8	6.2
Alberta	3.5	3.2	3.9	4.1
CONSUMER PRICE INDEX (1961 = 100)				
Calgary–Edmonton	141.8	141.1	133.0	133.1

- Production costs were rising rapidly in the United States without corresponding gains in productivity, intensifying inflationary pressures. Of importance to the international situation was that the rate of inflation in the United States has been relatively higher than those of its competitors over the last decade. Thus, the U.S. has forfeited a degree of its competitive advantage;
- Between 75 and 100 billion dollars of unrepatriated U.S. dollars accumulated in Europe over the last 3 decades due to defence spending, tourism and investment. These dollars – commonly called "Eurodollars" had been the target of intense monetary speculation during the last 2 years.

After two devaluations this situation seems to have improved somewhat with the U.S. dollar strengthening in most money markets. Latest U.S. balance of payments figures for the second quarter of this year reveal a $433 million surplus, a dramatic reversal from the $10.5 billion deficit of the previous quarter, and the first surplus in the U.S. balance of payments since late 1969. This improvement has resulted primarily from increases in U.S. exports and short-term interest rates which have attracted substantial foreign investment.

Members of the General Agreement on Tariffs and Trade (G.A.T.T.) will be meeting in Tokyo in September to discuss the agenda for the upcoming multi-national trade negotiations. Besides tariff discussions the issues which are expected to receive high priority are **non-tariff trade barriers** and **agricultural support policies**.

The application of **non-tariff barriers**, which include quotas, anti-dumping and countervailing duties, custom valuation methods and government aids to industry, has become more widespread during the last few years. Member countries are concerned about the usefulness of re-negotiation of tariff rates if the results are negated by the increased use of non-tariff barriers.

Agricultural support policies are the most popular non-tariff barriers and it is expected that much of the discussion will centre around these policies. The United States, for example, has suggested converting all systems protecting agricultural products into tariff equivalents and that these be fixed at the outset of the proceedings, followed by negotiations for tariff reductions. This system would have the advantage of allowing quick examination of each country's policies.

Last year Canada's exports of goods amounted to over $18 billion and contributed 27 per cent to our Gross National Product. Seventy per cent of our trade was with the United States. Throughout this period of monetary instability, the Canadian dollar has remained close to par with the U.S. dollar, effectively devalued in relation to most European currencies and the Japanese yen. This devaluation has been particularly beneficial for Canada's merchandizing exports, as reflected by a 28 per cent increase in the value of Canada's exports in the first four months of 1973 over the same period in 1972.

With proper management some experts believe the current favourable balance can be maintained. This could lead to an appreciation of the U.S. dollar against the major European currencies by as much as 10 per cent in the next few months. If this should in fact occur, it is likely the Canadian dollar would follow a similar course. The result would tend to offset somewhat the highly favourable internationally competitive position Canada now enjoys.

BUSINESS OUTLOOK

The July, 1973, issue of the OECD Economic Outlook, prepared by the Organization for Economic Cooperation and Development, reports that the outlook for Canada's major trading partners is one of **very strong economic expansion**. This coupled with the devalued Canadian dollar should result in continued substantial growth in Canadian export trade. The highlights of foreign economies most pertinent to Canada's economic prospects are listed below:

European Economic Community

- Most member countries of the **European Economic Community** are in the midst of a substantial major upturn in economic growth. Real economic growth in Canada's three major trading partners in the Community – **Germany, France and the United Kingdom** – is expected to average between 6.5 and 7 per cent higher in 1973. In spite of a progressively restrictive monetary policy, export prospects for Canada to the EEC are favourable, **particularly in Germany**, where the revaluation of the German Mark has given Canadian exporters a competitive edge.

Japan

- Fixed investment, which is expected to show an increase of over 19 per cent this year, should prolong strong economic expansion in Japan. Japan's real GNP increase of about 16 per cent since September 1972, should stimulate an overall growth of 13.5 per cent in 1973. Consumer prices, however, are forecast to rise by close to 9 per cent. Strong growth in conjunction with the revaluation of the yen and a rate of inflation substantially above Canada's, make **Canada's export prospects to Japan very favourable.**

United States

- **Export prospects to the United States are also favourable**, with the U.S. real GNP expected to increase by 7¼ per cent during 1973. Throughout the recent monetary realignments, the Canadian dollar has remained close to par with the U.S. dollar. If this situation continues, Canada can certainly look forward to ever increasing amounts of trade with her most important trading partner.

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